GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2062
ANSWERED ON:30.11.2007
REVIEW OF INTEREST RATE
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has reviewed the interest rate scenario;

(b) if so, the details thereof, and

(c) the likely impact on credit availability in the country?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI PAWAN KUMAR BANSAL)

(a)&(b): Effective from October 18, 1994, the Reserve Bank of India (RBI) has deregulated the interest rates on advances above Rs.2 lakhs, including the Housing loans and these interest rates are determined by the banks themselves with the approval of their Board of Directors subject to Benchmark Prime Lending Rates (BPLR) and spread guidelines. In order to enhance transparency in banks` pricing of their loan products, banks have been advised to fix their BPLR after taking into account
(i) actual cost of funds,
(ii) operating expenses and
(iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin and ensure that the BPLR truly reflects the actual cost. Individual banks, therefore, determine interest rates to be charged to a particular borrower subject to BPLR and spread guidelines. Given the prevailing credit market in India and the need to continue with concessionality for small borrowers, the practice of treating BPLR as the ceiling for loans upto Rs. two lakhs continues. However, Banks are free to determine the rates of interest without reference to BPLR and regardless of the size in respect of loans of purchase of consumer durables, loans to individuals against shares and debentures/bonds, other non-priority sector personal loans, etc.The Reserve Bank of India (RBI) has given freedom to commercial banks with effect from 22nd October, 1997 to fix their own interest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors /Asset Liability Management Committee (ALCO). As such, the rates of interest on deposits are determined by the banks themselves.

(c): RBI had stated that the outcome for interest rates depends mainly on the outlook for inflation, growth prospects and investment demand and it is not possible to predict short-run movements in interest rates.